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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, DECEMBER 6, 1999

APPLICATION OF

VIRGINIA GAS PIPELINE COMPANY

CASE NO. PUE990167

For Certification of a
Natural Gas Transmission Line
under the Utility Facilities
Act

FINAL ORDER

On March 19, 1999, Virginia Gas Pipeline Company ("VGPC" or "the Company") filed an application with the Virginia State Corporation Commission ("Commission") pursuant to the Utilities Facilities Act (§ 56-265.1 et seq.) of Title 56 of the Code of Virginia requesting a certificate of public convenience and necessity to construct, own, and operate a natural gas transmission pipeline system and related facilities to provide an additional throughput of 21,500 dekatherms of gas per day. The proposed pipeline is an expansion of VGPC's existing P-25 pipeline system from Chilhowie, Virginia, to Radford, Virginia.¹

VGPC proposed to extend the line from Radford into Roanoke County, Virginia, and to construct laterals to Rocky Mount,

¹ The existing P-25 pipeline from Chilhowie to Radford, Virginia, was approved by the Commission in Case No. PUE970024.

Virginia, and into the City of Roanoke. The Company states that

the project will total approximately 57.4 miles and will connect VGPC's facilities with markets further east. The Company proposed using the same tariff for firm transportation service agreements as that currently on file with the Commission for its P-25 transmission line. The proposed transmission line passes through the distribution territories of United Cities Gas Company and Roanoke Gas Company and will provide natural gas transportation service only.

In an order entered on April 15, 1999, the Commission directed the Company to give notice of its application and to provide the public with an opportunity to comment and request a hearing. The Commission also directed its Staff to file a report detailing its findings and recommendations on or before July 16, 1999.

On July 15, 1999, the Staff filed a "Motion for Extension of Time," requesting that the Commission extend the date for the filing of the Staff report until October 15, 1999, due to the Company's July 14, 1999, modification to its proposed route. That motion was granted on July 16, 1999.

Staff filed its report on September 30, 1999. In its report, Staff recommended that the application be approved. Staff noted that there was sufficient need to support the addition of gas transportation service in southwestern Virginia. Staff stated that it believed VGPC has the technical and

managerial capability to construct and operate the proposed pipeline but that the operation of the proposed facility was dependent upon the expeditious completion of VGPC's P-25 pipeline into Radford. The Staff encouraged the Company to exercise all deliberate haste in completing that section of its intrastate pipeline. Staff also remained cautious about the Company's financial outlook. As such, Staff recommended that the Commission continue to monitor the financial condition of VGPC through the AIF process and future Chapter 3 and 4 filings related to the pipeline expansion.

Staff further stated that capitalization of interest was appropriate during the construction phase of the project. Staff stated that the capitalization rate should be the weighted cost of debt resulting from the Company's capital structure and that this rate should be computed annually and multiplied by the cumulative monthly average balance of Construction Work in Progress. Staff also stated that gross capitalized interest should be reduced by earnings on funds held in reserve and that the inclusion of capitalized interest in rate base should be subject to an annual earnings test. According to Staff, interest deemed recovered need not be capitalized for future recovery.

In a letter dated November 15, 1999, the Company provided updates to data and statements presented in the Staff's Report.

The Company stated that it expects to issue debt with detachable warrants at a rate of approximately 11% rather than at a rate between 8.5% and 9.5%, as listed on page 13 of the Staff's Report. With this and the other minor revisions, the Company agreed to accept Staff's recommendations as stated in the above-referenced report.

NOW THE COMMISSION, having considered the Company's application, Staff's report, the Company's revisions, and § 56-265.1 et seq. of the Code of Virginia, finds that it is in the public interest to grant VGPC a certificate of public convenience and necessity to construct, own, and operate a natural gas transmission pipeline system and related facilities to provide an additional throughput of 21,500 dekatherms of gas per day. The Commission will approve the Company's application, and will adopt Staff's recommendations, with the modifications submitted by the Company. The Commission is aware of the potential impact of the higher interest rates now available to the Company. Our Staff will continue to monitor the Company's cost of debt as well as its overall financial condition. Accordingly,

IT IS ORDERED THAT:

(1) Virginia Gas Pipeline Company is hereby granted Certificate No. GT-69 to own and operate a natural gas transmission pipeline system and related facilities, expanding

upon VGPC's existing P-25 pipeline system from Chilhowie, Virginia, to Radford, Virginia.

(2) The Commission adopts and the Company shall implement Staff's recommendations as detailed herein.

(3) This case is hereby dismissed from the Commission's docket of active cases.